



DJ BASIN, CO

Landowner Negotiations

In many of the areas where EnCana operates, there is separate ownership of the minerals below the ground and the surface of the land. This split ownership is commonly referred to as "split estate." One of EnCana's first steps in the process of drilling a well is reaching an agreement with the surface owner on how the oil and gas will be accessed. Below is an outline of the rules regarding this process and the steps EnCana takes to ensure we access the minerals in a way that is fair and responsible to all parties involved.

Ownership of the split estates can take many forms, including:

- Federal mineral/private surface
- Private mineral/federal surface
- State mineral/private surface
- Private mineral/state surface

Split estates involving minerals owned by the United States resulted from early twentieth century public land laws for surface entry and settlement of public lands. Congress passed the Agricultural Entry Act of 1914 and the Stock Raising Homestead Act of 1916. These acts provided for patents of the surface estate and reserved all or a portion of the minerals to the United States.

In Colorado, 36 percent of the state's 66-million surface acres and more than 41 percent of the mineral estate is owned by the federal government and managed by the Bureau of Land Management (BLM) and the U.S. Forest Service. Energy development from leases administered by the BLM is important to domestic supply. Annual natural gas production from these leases is enough to supply the natural gas use of almost half of U.S. households for one year. Royalties are also paid on federal minerals, and a portion of the royalties is paid to the states. In 2008, EnCana contributed over \$50 million in federal and state royalty payments.

Both the surface and mineral estates have the right to use the surface. Under Colorado law, the mineral owner "is privileged to access the surface and use that portion of the surface estate that is reasonably necessary to develop the severed mineral interest." Neither the surface owner nor the mineral owner has any right to exclude the other from the surface. Each party must have "due regard" for the rights of the other in using the surface. This concept of "due regard" requires mineral owners "to accommodate surface owners to the fullest extent possible consistent with their right to develop the mineral estate." The surface owner continues to enjoy the right to use the surface of the land as long as such use does not preclude the mineral owner from reaching the minerals.

ENCANA'S COMMITMENT

We value our relationships in the community and our relationships with each surface owner. Community feedback is important to us, and we invite you to call our toll-free Community Relations hotline (866-896-6371) anytime you have a concern or question.



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The Colorado Oil and Gas Conservation Commission (COGCC) regulates oil and gas development in Colorado, including reclamation of the surface. The COGCC's rules require an operator to consult in good faith with the surface owner before a drilling permit is issued. COGCC policy allows the surface owner to request an onsite inspection with a member of the COGCC staff.

Reaching Agreement with Surface Owners

EnCana views the process of reaching an agreement with a surface owner regarding the location of facilities and access as a collaborative one. Prior to beginning any work on the surface, EnCana schedules an onsite meeting with each surface owner to discuss oil and gas development. During our discussions, we make every effort to consider the individual preferences and unique needs of each surface owner, and we work diligently to develop an agreement that is fair to all parties. We evaluate current land use, review maps and surveys together, answer questions, and address landowner concerns to the best of our ability.

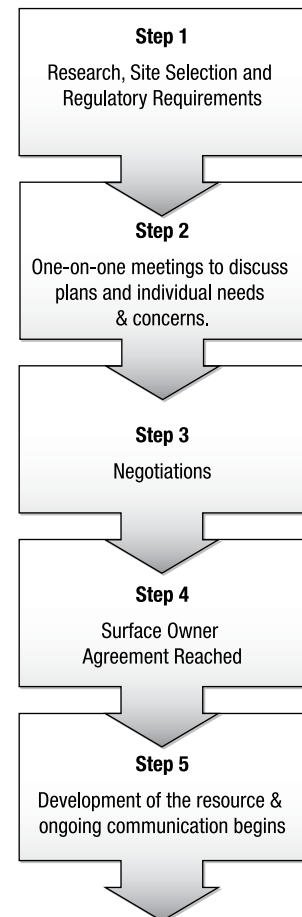
If we are unable to reach agreement with a surface owner, COGCC rules require us to post a bond sufficient to protect the surface owner

against unreasonable crop loss or land damage caused by our operations. **Inability to reach an agreement with the surface owner, however, is the exception rather than the rule.** Statewide, we successfully reach agreements with surface owners 97 percent of the time.

Once we've reached agreement with the surface owner, we work hard to maintain our commitments by communicating about our operations. We have a staff of operations and community relations professionals dedicated to each area of operation – many live and work in the area. They provide regular updates about our current and planned activities, quickly address concerns, and work hard to educate surface owners, neighbors and the community about the work we do.

And, although we are not legally required to do so, we implement innovative programs to further mitigate the impacts of our operations. Examples include the use of directional drilling, telemetry on well sites to reduce lease operator traffic, water transport pipelines to minimize truck traffic trips for drilling and completion operations, and an expeditious reclamation program.

Surface-use Agreement Process Diagram



Resources

Community Relations: (866) 896-6371
Colorado Oil & Gas Conservation Commission: (303) 894-2100

Source: BLM Colorado, U.S. Department of the Interior BLM
Wyoming Split Estate Initiative, COGCC